(4)

Supreme Court, U.S.
FILED
OCT 2 8 2004
OFFICE OF THE CLERK

No. 04-233

IN THE

# Supreme Court of the United States

NXIVM CORPORATION *et al.*,

*Petitioners,*

v.

ROSS INSTITUTE *et al.*,

*Respondents.*

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit**

## REPLY BRIEF IN SUPPORT OF CERTIORARI

RICHARD H. WEINER
JUSTIN A. HELLER
NOLAN & HELLER, LLP
39 North Pearl Street
Albany, NY 12207
(518) 449-3300

CARTER G. PHILLIPS*
ERIC A. SHUMSKY
SIDLEY AUSTIN BROWN & WOOD LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

*Counsel for Petitioners*

October 28, 2004

* Counsel of Record

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

TABLE OF CONTENTS


| | Page |
|---|---|
| TABLE OF AUTHORITIES | ii |
| REPLY BRIEF IN SUPPORT OF CERTIORARI | 1 |
| I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE | 1 |
| II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107 | 6 |
| CONCLUSION | 8 |

# TABLE OF AUTHORITIES

CASES Page

*Atari Games Corp.* v. *Nintendo of Am. Inc.*, 975 F.2d 832 (Fed. Cir. 1992) ..... 1, 2, 3, 4
*Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) ..... 1, 4, 7
*Harper & Row Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539 (1985) ..... 1, 2, 4, 6
*New Hampshire* v. *Maine*, 532 U.S. 742 (2001) ..... 6
*State Oil Co.* v. *Khan*, 522 U.S. 3 (1997) ..... 4

RULE

Sup. Ct. R. 10(a) ..... 3

## REPLY BRIEF IN SUPPORT OF CERTIORARI

Respondents' Opposition[1] is far more striking for what it concedes than for what it contests. Respondents concede that there is a circuit split over the meaning of *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539 (1985). They do not deny that there is inconsistency between *Harper & Row* and *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994), which only this Court can resolve. They affirmatively argue that *Harper & Row* is internally inconsistent. And, they acknowledge that the Second Circuit employed a presumption—just as petitioners argued—that the nature of respondents' publication satisfied the first prong of the fair use test. In short, far from undermining the case for certiorari, respondents' brief reveals plainly that the questions presented by petitioners warrant review by this Court.

### I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE.

1. Respondents altogether fail to undermine the petition's showing that the decision below stands in square and acknowledged conflict with the decision of the Federal Circuit in *Atari Games Corp.* v. *Nintendo of America Inc.*, 975 F.2d 832 (Fed. Cir. 1992), and is incompatible with multiple decisions of the Ninth Circuit. Pet. 12-13. On the contrary, they concede the conflict.

---

[1] References and citations to the "Opposition," unless otherwise noted, concern the brief filed on behalf of "respondents" collectively, not the separate opposition filed by Stephanie Franco. The Franco brief substantially duplicates the other brief, with the exception of factual assertions that are not material here, Franco Opp. 2-3, and that are gainsaid by the record in any event, as the authorities cited in the Petition demonstrate, *see* Pet. 4 & n.2.

As set forth in the petition, this Court held in *Harper & Row* that only a defendant who has acted in good faith can avail itself of the fair use defense to copyright infringement. 471 U.S. at 562 ("'[f]air use presupposes "good faith" and "fair dealing"'"). This principle, which is supported by a long common-law tradition, Pet. 10, was applied by the Federal Circuit in *Atari*. There, the Federal Circuit stated three separate times that the fair use defense is unavailable to a defendant who possesses an unauthorized copy of a copyrighted work. 975 F.2d at 843 ("To invoke the fair use exception, an individual must possess an authorized copy ...."); *id.* ("Because Atari was not in authorized possession..., any copying or derivative copying ... does not qualify as a fair use."); *id.* at 842 ("The Copyright Act permits an individual in rightful possession of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation.").

In the decision below, the Second Circuit declined to apply a literal reading of *Harper & Row*'s holding, and then acknowledged that its decision conflicted squarely with *Atari*. Although it treated defendants' acquisition of the relevant copyrighted materials as unauthorized, Pet. App. 6a, 9a, it nonetheless refused to treat this fact as dispositive, *id.* at 10a ("'nothing in *Harper & Row* indicates that the defendants' bad faith is itself conclusive of the fair use question'" (alterations omitted)). Having reached this conclusion, the court stated forthrightly that the rule of *Atari* would have mandated the opposite result: "[T]he rule enunciated in *Atari* would foreclose the fair use defense altogether based upon defendants' bad faith." *Id.* at 9a. The decisional conflict is absolutely plain. (And, as the petition demonstrates, this conflict is exacerbated by a third approach adopted by the Ninth Circuit. Pet. 12.)[2]

---

[2] There is no substance to respondent Franco's claim that the circuit split is illusory because, she argues, the Federal Circuit's decision in *Atari* was merely interpreting Ninth Circuit precedent, and has been superseded

Importantly, respondents do not dispute the existence of this conflict; instead, they weakly assert that the petition "overstate[s] the split." Opp. 8. It is unclear in what fashion the split is "overstated"; there exists an acknowledged conflict, which respondents concede, and it is that critical fact that warrants this Court's review. Sup. Ct. R. 10(a).

Respondents seemingly mean to argue that *Atari* and the decision below can be distinguished on their facts. They claim that *Atari* "is best understood"—a telling turn of phrase—as limited to only those cases in which the defendant's "*own conduct* ... was fraudulent." Opp. 8. Thus, they argue, *Atari* does not apply to a case like this one, involving what they suggest is a blameless third party. *Id.* at 8-9. This argument is wrong for at least two reasons. First, this attempt to limit *Atari* to its facts finds no support in *Atari* itself. *Atari* broadly stated that "[t]o invoke the fair use exception, an individual must possess an authorized copy." 975 F.2d at 843. Nothing in *Atari* suggests that the Federal Circuit's reasoning depended upon the factual distinction advanced by respondents. On the contrary, on each of the three occasions on which the court stated the rule it was applying, it focused on the fact that the copy was unauthorized, and nowhere limited its rule with reference to the party that acted in unauthorized fashion. *Id.* at 842, 843.[3]

---

by intervening decisions. Franco Opp. 7. Although *Atari* did seek to predict the state of the law in the Ninth Circuit, 975 F.2d at 837, nothing in *Atari*'s discussion of *Harper & Row*, or of the principles relevant here, depended on Ninth Circuit authority, *id.* at 843-44. *Atari* undertook a general analysis of the law; it remains binding authority in the Federal Circuit across an array of cases; and it indeed conflicts with the decision of the Second Circuit in this case.

[3] Even were the factual distinction put forward by respondents relevant, it is far from clear that respondents in this case are in fact blameless. On the contrary, evidence indicates that in the course of his paid employ by the Sutton family, respondent Ross solicited the confidential materials (and therefore contributed to the breach of contract); passed them along to Hochman and Martin; and posted the eventual infringing materials on the

Second, and perhaps more important, the Second Circuit itself rejected the distinction suggested by respondents. That court concluded that the rule of *Atari* would have led to a different result in this case. Pet. App. 9a. Simply put, the Second Circuit perceived no relevant basis for distinguishing *Atari*. The court below "understood" *Atari* completely, Opp. 8, and simply refused to follow it. That is reason enough to grant certiorari.

2. Importantly, respondents make no effort to counter the petition's showing that review is necessary to clarify apparent ambiguity in this Court's decisions. Pet. 13-16. As the petition explains, this Court's decision in *Campbell* arguably, implicitly undercut *Harper & Row*'s statement that bad faith precludes the fair use defense. *Id.* at 14; 510 U.S. at 585 n.18. *Campbell*, however, did not *explicitly* state that it was overruling *Harper & Row*, 510 U.S. at 585 n.18, and thereby left lower courts in the position of having to attempt to follow inconsistent decisions, cf. *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) (noting that the lower courts may not treat a Supreme Court decision as having been implicitly overruled). The court below recognized the difficulty in remaining faithful to both *Harper & Row* and to *Campbell*, see Pet. App. 8a, 10a n.2, as did Judge Jacobs in his separate concurring opinion, *id.* at 21a, 24a. Respondents fail altogether to address this issue. (Indeed, they all but fail to mention *Campbell*. Cf. Opp. iii.)

On the contrary, their brief confirms that this Court's review is necessary to resolve doctrinal confusion. On the one hand, respondents do not dispute, because they cannot, that *Harper & Row* held that "'[f]air use presupposes "good faith" and "fair dealing."'" 471 U.S. at 562. The meaning of this phrase is plain, as the Federal Circuit recognized. 975 F.2d at 842, 843; see also Pet. 14. Instead, respondents argue that this Court in *Harper & Row meant* something different than

---

Ross Institute's web site (and therefore was complicit in the infringement). Second Cir. Joint App. 29, 42, 633-35.

what it *said*. On their view, *Harper & Row* does not *really* mean that bad faith is dispositive, because after stating this rule, the Court went on to employ an inconsistent mode of analysis—it treated bad faith as "only one of several factors in the Court's own analysis of fair use." Opp. 7; *accord id.* at 9 ("this Court's treatment of the 'purloined manuscript' in *Harper & Row* demonstrates that the improper source of a copy is *only one factor to be considered* in a complete analysis of the fair use factors" (emphasis added)). If respondents are correct, then this is all the more reason for this Court to grant review. On this view, not only is there a decisional conflict between *Campbell* and *Harper & Row* (which, of course, only this Court can resolve), but there is an additional ambiguity within *Harper & Row* itself—which only this Court can resolve, and which is leading to confusion in the lower courts.

3. Respondents' assertion that "petitioners' analysis makes no sense," Opp. 9, is purely a merits argument and is no reason to deny certiorari. As the petition demonstrates, "petitioners' analysis" is nothing more than the rule of *Harper & Row*, which is the correct rule. Pet. 8-10. Furthermore, there is no reason to believe that the rule of *Harper & Row* would lead to the parade of horribles that respondents predict, Opp. 9-10, for the simple reason that none of the hypotheticals they pose necessarily encompasses bad faith such that the fair use exception would be precluded. But in any event, "petitioners' analysis" is no different than the rule of *Harper & Row* and *Atari*, and thus respondents' effort to conflate certiorari with the merits is unavailing. Respondents may disagree with those rulings, but their holdings are clear. If those cases "make[] no sense," then only this Court can correct the claimed error. Once more, respondents themselves have made the case for certiorari.[4]

---

[4] Respondents' final argument with regard to the first Question Presented—that "the Second Circuit adopted the very position that petitioners put forward in their briefs below," Opp. 7—barely requires response. For judicial estoppel to succeed (and, although respondents fail to identify

## II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107.

Respondents likewise provide no substantial argument against granting certiorari on the second Question Presented. As the petition explains, *Harper & Row* held that the preamble to § 107 "was not intended … to single out any particular use as presumptively a 'fair' use." 471 U.S. at 561; Pet. 16 (setting forth additional authorities). Yet the court below determined that, because defendants' publication was "criticism"—which is one of the enumerated categories in the preamble to § 107—the first fair use factor was presumptively satisfied. Pet. 17 (explaining same). Accordingly, the reasoning of the court is inconsistent with decisions of this Court, and certiorari is warranted.

Respondents do not dispute that *Harper & Row*, like authorities before it, stated a clear rule against the use of presumptions in the fair use analysis. Instead, they argue that (1) the petition somehow misstates the issue; and (2) the Second Circuit did not actually apply such a presumption. Both arguments fail.

The first argument is belied by the petition itself, and fails on the merits. Respondents suggest that if the Second Circuit applied any presumption, it was that the uses listed in the preamble to § 107 presumptively satisfy the *first* fair use factor (rather than that such uses are presumptively fair *overall*). Opp. 12. But this is precisely what the petition explained, Pet. 16-17, as respondents acknowledge, Opp. 12. The deci-

---

their theory by name, judicial estoppel is plainly the doctrine they invoke) the purportedly estopped argument must be "'clearly inconsistent'" with the argument made below. *New Hampshire* v. *Maine*, 532 U.S. 742, 750 (2001). But respondents concede that in the Second Circuit, petitioners made the very same argument that they advance here. Opp. 7 ("petitioners cited *Atari* for the proposition that to invoke fair use, 'an individual must possess an authorized copy of a literary work'").

sion below concluded, as the Second Circuit repeatedly has done, that when a "use" falls within one of the categories listed in the preamble to § 107, that use presumptively satisfies the first prong of the fair use test. Pet. App. 7a; Pet. 16-17 (explaining same, and citing other Second Circuit authorities that have held likewise).

As the petition shows, this was error. *Harper & Row* and earlier decisions of this Court held, and the legislative history of § 107 confirms, that presumptions are generally inappropriate in this context. Pet. 16. More specifically, *Campbell* held that presumptions regarding the first fair use category are impermissible. 510 U.S. at 584. In *Campbell*, the specific question was whether the commercial nature of a use mandated a presumption against fairness within the first factor of the fair use test. Looking to the same portion of *Harper & Row* cited in the petition, and the same legislative history cited in the petition, this Court held that such presumptions are impermissible. *Id.* ("the mere fact that a use is educational and not for profit does not insulate it from a finding of infringement, any more than the commercial character of a use bars a finding of fairness"). As the petition demonstrated, then, the decision below stands in square conflict with decisions of this Court.

Respondents' second argument, that no presumption was in fact applied below, is flatly inconsistent with the decision of the Second Circuit. They argue that although the Second Circuit *said* one thing, it *meant* something else, Pet. 12—in particular, that the Second Circuit said it was applying a presumption of fairness, but did not in fact do so. The decision below fully answers this contention. The Second Circuit said not once, but twice, that it was employing a "presumption" that the first fair use factor was satisfied. Pet. App. 7a. It not only stated that it was applying a presumption, but that it was employing a "'strong presumption.'" *Id.*

* * * *

The telling concessions in respondents' opposition confirm the need for review. Respondents do not dispute that there is a square and acknowledged circuit split among the federal circuit courts that have primary responsibility for implementing the Nation's intellectual property laws. Respondents do not even address the lower courts' perception of confusion in this Court's precedents. And their attempt to show that the decision below is consistent with this Court's precedents depends entirely on mischaracterizing the petition and the decision below. Instead of following respondents' lead and wishing the decisional problems away, the Court should grant the petition and decide the fundamental questions of copyright liability posed here.

## CONCLUSION

For the foregoing reasons and those stated in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted,

RICHARD H. WEINER
JUSTIN A. HELLER
NOLAN & HELLER, LLP
39 North Pearl Street
Albany, NY 12207
(518) 449-3300

CARTER G. PHILLIPS*
ERIC A. SHUMSKY
SIDLEY AUSTIN BROWN & WOOD LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

*Counsel for Petitioners*

October 28, 2004

* Counsel of Record